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DIRECTORATE OF
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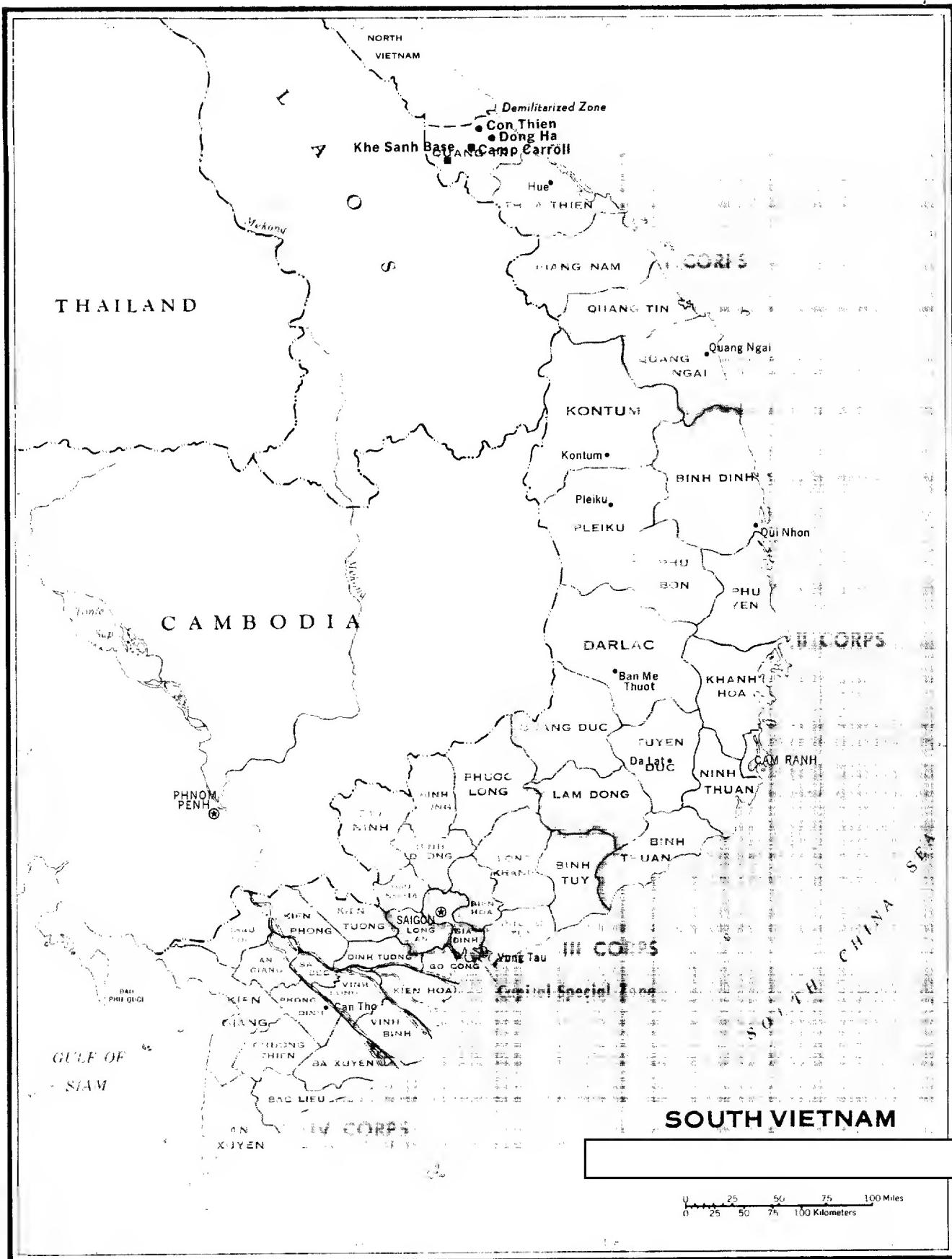
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[East Germany - Berlin: East Germany has set full diplomatic recognition as the price Bonn must pay for easing tensions.

In a speech made earlier this month but publicized only yesterday, party boss Ulbricht castigated Bonn and the Allies for trying to "roll back" the socialist states. He branded Bonn's conciliatory eastern policy and Washington's bridgebuilding policy as attempts to "seduce" Eastern Europe. He implied that Czechoslovakia was about to succumb to such Western blandishments.

Ulbricht called upon Bonn to conclude a renunciation of force agreement, to recognize the current East-West German border, to join East Germany in endorsing the nonproliferation treaty, and to renounce the stockpiling of nuclear weapons on West German territory. "When these peaceful agreements have been concluded, we can get on with normalizing the relations between the two German states," he said.

In the meantime, rumors that the Soviets and East Germans have plans to interfere with air access continue to circulate in West Berlin. The rumors suggest that only Allied military aircraft are guaranteed free access in the air corridors and that the three Allied commercial airlines serving the city are not covered.

The Soviets have been ambivalent on the subject. They have said that Allied access will not be interfered with and have shown no intention of withdrawing from the city's four power air control organization. The Soviet ambassador to East Germany, however, has informed the Allies on two occasions of the possibility of East German interference with air access. Apart from the recent]

[Establishment of an East German office for the control of civilian air traffic over East Germany, there is little to indicate that the rumors are more than a psychological exercise at the moment.

More tangible action occurred near the wall yesterday when an East German crane lifted a West German tourist observation platform over the wall into East Berlin. The East Germans subsequently contended that the platform had been on East Berlin territory. [redacted]

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France: Tomorrow's first round in the parliamentary elections is likely to be indecisive.

Following tomorrow's vote, a complex bargaining process will begin to determine which candidates will compete in the runoff elections on 30 June. After the results of this interparty bargaining are announced on 26 June, the political significance of the first round of voting will become more clear.

Party leaders have been unable to generate a great deal of public interest in the political campaign of the last two weeks. The atmosphere, unusual for a French electoral campaign, reflects the recent turmoil and a belief that the elections will not solve the problems which generated the crisis. There were sporadic attempts to disrupt the elections yesterday as the campaign came to a close.

According to recent polls, the voting is expected to produce only minor shifts among the major parties. The small Unified Socialist Party, the only group to align itself consistently with the student "new left," is expected to obtain almost five percent of the vote, double the previous figure.

Certain Gaullist leaders expect De Gaulle to address the nation on the eve of the first ballot or between the two rounds of voting in an "eleventh hour" appeal to rally the "massive majority" first called for on 30 May.

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Czechoslovakia-Italy: Rome will probably grant the Czechoslovaks a credit for the purchase of Italian industrial goods, as it has been granting other Eastern European countries for years.

The Italian Foreign Ministry reports that Czechoslovakia requested a foreign currency loan or a credit for an unspecified amount after indicating that prospects for a hard-currency loan from the USSR were extremely poor. The Soviets offered only a limited amount of goods the Czechoslovaks otherwise would have to buy in the West on credit.

The Czechs said that although they hope eventually to approach such international financial organizations as the World Bank and the International Monetary Fund, they are, for political reasons, first sounding out Italy and France.

Italy tentatively agreed to liberalize requirements for imports from Czechoslovakia but urged Prague first to permit individual firms in Czechoslovakia to order directly from abroad, a move the Czechs promised in a few weeks. Italy may soon invite a Czech economic delegation to sign a pact on industrial cooperation, such as many East and West European countries have concluded in recent years.

Meanwhile, reports that Prague is negotiating for hard-currency loans with private West German banks remain unconfirmed.

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Burma: [General Ne Win shows no sign of shifting course despite economic deterioration and continued insurgency.]

[The government appears not to share the conviction of foreign observers that Burma should undertake economic reforms.]

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[The resistance of Burmese farmers to selling rice at the unrealistically low prices offered by the government rice monopoly has led to a steady decline in rice exports, Burma's main source of foreign exchange. Prospects are that rice exports in 1968 will not even reach the 500,000 tons shipped last year, the lowest level since World War II.]

[The government's failure to take steps to revive the economy stems partly from ineptness and indecision. Ne Win's commitment to his "Burmese Way to Socialism" militates against Burma's making the changes necessary to reduce the government's tight control and revitalize the economy.]

[The absence of a significant domestic threat to the regime probably contributes to Ne Win's complacency. Ethnic and Communist insurgency is a continuing problem, but fragmentation and hostility among the rebels have prevented a unified and broadly based insurgency. The regime discounts the threat of a direct Communist Chinese attack and believes that Chinese Communist efforts will continue to be focused on aid to the unpopular White Flag Communists.]

[Although the government's refusal to make basic changes portends a further decline in the economy, most of the populace is generally unaffected by the modern sector of the economy and the military regime will probably not face significant popular reaction in the near future.]

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Chile: The government's stabilization program is in danger of being scuttled.

President Frei and his economic advisers seem to be yielding to pressure for more private credit at a time when the government's borrowing requirements have risen sharply. The budget deficit for this year is growing, primarily because the recent wage readjustment bill will cost more than anticipated. Central bank financing of these expenditures could lead to a rise of 38 percent in prices this year. The president of the central bank, who is against relaxation of monetary and credit policy, seems to be losing influence within the government.

The anti-inflation measures announced recently by the minister of economy contain little that is new and nothing that is apt to have a salutary effect in the near future. The main elements are a restatement of the government's intention not to authorize further price increases in 1968 except for meat and oil, an effort to educate the consumer in the fight against inflation, and a plea to both management and labor to reduce costs and increase productivity.

Although President Frei reportedly is convinced that his party's chances in the 1969 congressional elections will be badly damaged if inflation gets out of hand, he evidently finds the political consequences of more stringent financial measures equally unpalatable.

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[Brazil] Major violence erupted in Rio de Janeiro yesterday when police tried to stem student disorders.

Guanabara State Police reacted erratically and reportedly have killed some students and injured a great many others in their efforts to restore order. The police have also sustained numerous casualties. The First Army may be called out if the small, well-organized groups of students again manage to out-maneuver police.

Student leaders and other agitators hurled rocks, erected barricades and threw pieces of Rio's famed mosaic sidewalks in every direction. Press reports indicate that onlookers in nearby office buildings joined in the fray, hurling debris from their windows. The US Embassy was attacked by a roving mob that broke several windows before being driven off by police.

Students in other major Brazilian cities have already occupied various university buildings, and the Rio incidents could well set off more widespread violence. Most student complaints have centered on legitimate grievances about Brazil's outmoded educational system. These have now been broadened to include demands for the release of students arrested during the disorders of the last three days.

Brazilian security forces can certainly control the rioters. The cycle of violence, however, seems to be feeding off itself as student goading triggers repressive police measures which in turn infuriates more students.

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Panama: [President Robles has for all practical purposes rescinded the decree which would have permitted ships flying the Panamanian flag to trade with Communist countries, including Cuba. The controversial measure drew bitter criticism from both government and opposition sources, and put the president in an embarrassing predicament. In an effort to save face, the presidential press office announced that the edict had been voided because other members of the Organization of American States had not been consulted as "required by international agreement." Foreign Minister Eleta assured the US Embassy that the issue can now be considered dead.]

* * * *

Dahomey: Talks between the military regime and various political factions have reached an impasse, forcing cancellation of a planned meeting of military leaders with three exiled political bosses in Niamey, Niger. The meeting had been scheduled in the hope that it would produce agreement on a presidential candidate acceptable to all factions.

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[For its part, the military seems determined to hold power until agreement on a civilian president is reached, despite its own serious divisions and renewed reports of plans by younger officers to replace the provisional president, Lt. Col. Alley.]

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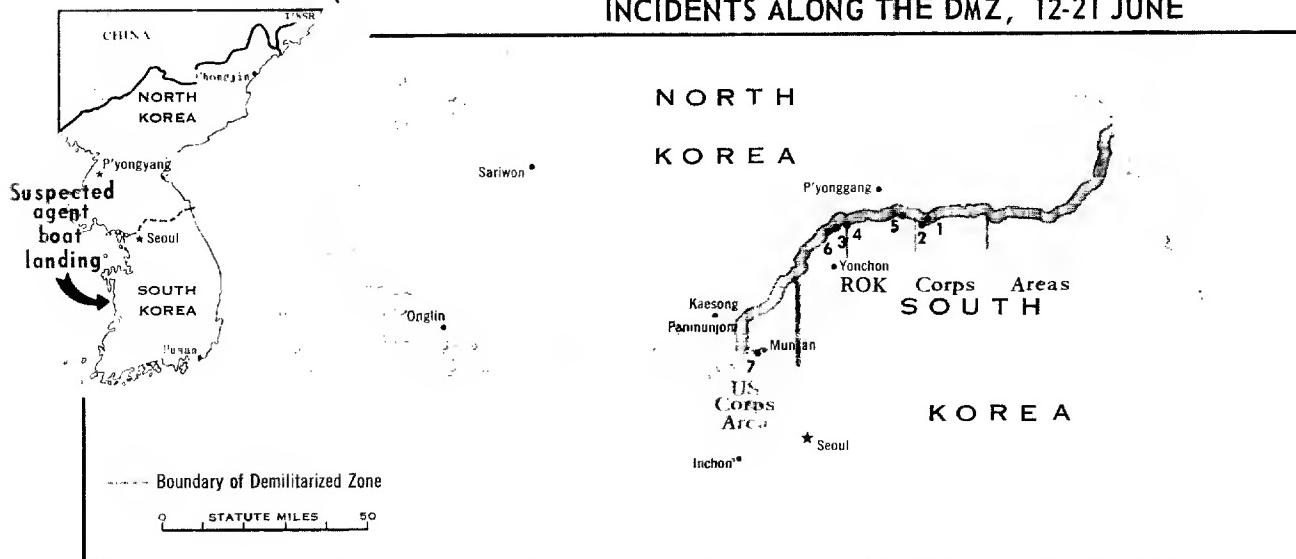
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no

INCIDENTS ALONG THE DMZ, 12-21 JUNE



DATE

NATURE

CASUALTIES

- | | | |
|------------|---|---|
| 1. 12 June | ROKs fired on 5-6 intruders. | None |
| 2. 12 June | ROKs fired on 3-4 intruders at barrier fence. | None |
| 3. 15 June | ROKs fired on 3 intruders. | 1 North Korean killed. |
| 4. 17 June | ROKs fired on 2 intruders. | 1 North Korean killed. |
| 5. 19 June | ROKs ambushed intruders in ROK uniforms. | 7 North Koreans killed. 1 ROK killed and 5 wounded by ROK mine. |
| 6. 21 June | Unknown number of intruders sighted. | None |
| 7. 21 June | US sighted two intruders; sweep discovered equipment cache. | None |

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Korea: [Recent incidents along the Demilitarized Zone suggest that Pyongyang is pushing the infiltration of agents into the South. The North Koreans encountered in most cases have been equipped for infiltration or reconnaissance missions. South Korean radar has also detected what may have been an agent boat landing south of Seoul. South Korean security has been tightened since Seoul reportedly suspects the North Koreans may plan a serious incident sometime between the anniversaries of the outbreak of the Korean war on 25 June and the armistice on 27 July.]

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Rumania-Israel: Acting Foreign Minister Macovescu's current two-day trip to Israel is part of Bucharest's effort to keep in touch with both the Arabs and the Israelis. He had talks with Egypt's foreign minister and Nasir in Cairo earlier this month. Macovescu is slated to confer with Foreign Minister Eban and possibly Prime Minister Eshkol. Meanwhile, Rumania's Foreign Minister Manescu, who is also president of the UN General Assembly, is scheduled to arrive in Rabat next week for talks with Moroccan leaders, who have taken a moderate stand on the Arab-Israeli war.

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USSR: The Soviets are planning a large expansion of the chemical fertilizer industry in order to meet their production goal for 1970. The planned increase of 48 million tons over the next five years will almost double present estimated capacity. Substantial increases in output appear likely, perhaps enough to meet the most important domestic needs and permit a modest expansion in exports. It is doubtful, however, that enough new facilities will be put into production in time to meet the ambitious goals set in current plans.

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USSR:

1970 Chemical Fertilizer Production Goal
(Million Tons)

	1967	1968	1969	PLAN 1970
Chemical Fertilizer Production	40.1	42+	(not available)	62.0
Additions to Plant Capacity	3.1	6.0	13.0	13.0

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